

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008

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Interstate 35 Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education
(Before September 2007 Election)**

Bret Smith	President	2009
Leah Gray	Vice President	2008
Bruce McCuddin	Board Member	2009
Charles Walters	Board Member	2007
Ken Stanley	Board Member	2008

**Board of Education
(After September 2007 Election)**

Bret Smith	President	2009
Leah Gray	Vice President	2008
Bruce McCuddin	Board Member	2009
Julie Brownlee	Board Member	2010
Ken Stanley	Board Member	2008

School Officials

Bill Maske	Superintendent	2008
Lisa Brown	District Secretary/ Business Manager	2008
Ahlers and Cooney, P.C.	Attorney	2008

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Interstate 35 Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Interstate 35 Community School District, Truro, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Interstate 35 Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2009 on our consideration of the Interstate 35 Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Interstate 35 Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for four years ended June 30, 2007 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by the United States Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 23, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interstate 35 Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$7,248,606 in fiscal 2007 to \$7,955,149 in fiscal 2008, while General Fund expenditures increased from \$6,653,826 in fiscal 2007 to \$7,119,600 in fiscal 2008. This resulted in an increase in the District's General Fund balance from \$719,866 in fiscal 2007 to a balance of \$1,555,415 in fiscal 2008, an \$835,549 increase over the prior year.
- The District's solvency ratio for fiscal 2007 was 9.70%. The improved health of the General Fund has allowed the solvency ratio for fiscal 2008 to rise to 19.07%.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Interstate 35 Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Interstate 35 Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Interstate 35 Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Federal Awards provides detail of the various programs, benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Interstate 35 Community School District Annual Financial Report

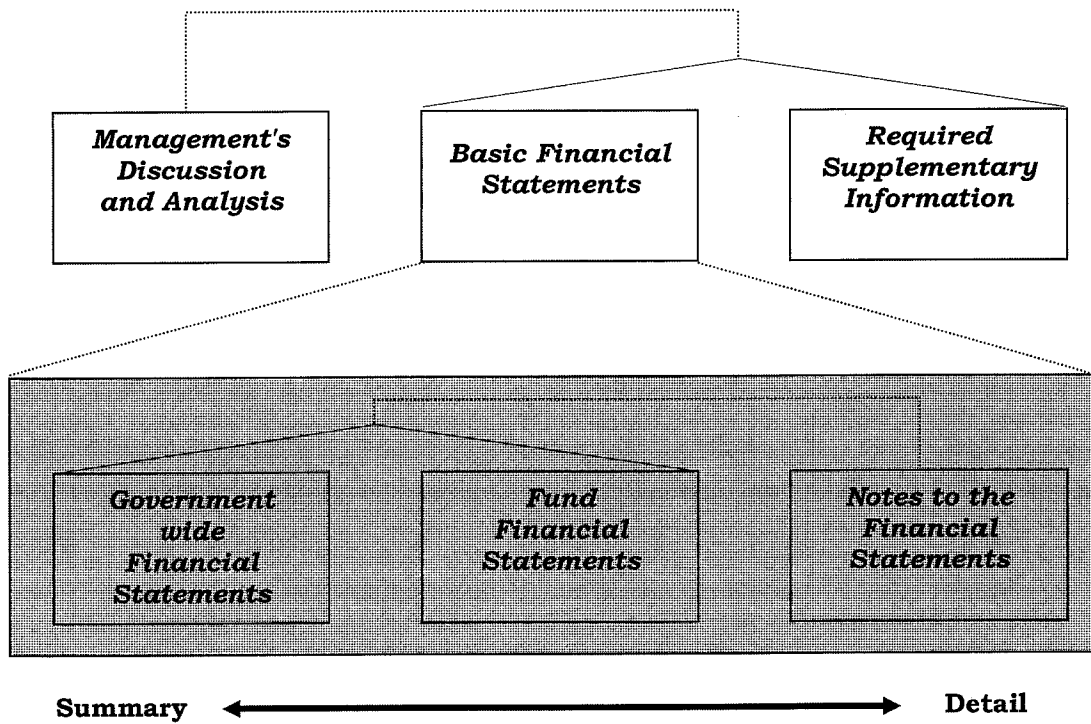


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the

District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 9,643,961	6,983,523	74,929	88,297	9,718,890	7,071,820	37.43%
Capital assets	9,957,738	9,619,094	95,649	110,647	10,053,387	9,729,741	3.33%
Total assets	19,601,699	16,602,617	170,578	198,944	19,772,277	16,801,561	17.68%
Long-term obligations	7,232,890	4,464,999	0	0	7,232,890	4,464,999	61.99%
Other liabilities	4,015,230	5,270,808	17,865	14,125	4,033,095	5,284,933	-23.69%
Total liabilities	11,248,120	9,735,807	17,865	14,125	11,265,985	9,749,932	15.55%
Net assets:							
Invested in capital assets, net of related debt	5,677,785	5,289,094	95,649	110,647	5,773,434	5,399,741	6.92%
Restricted	1,146,420	918,070	0	0	1,146,420	918,070	24.87%
Unrestricted	1,529,374	659,646	57,064	74,172	1,586,438	733,818	116.19%
Total net assets	\$ 8,353,579	6,866,810	152,713	184,819	8,506,292	7,051,629	20.63%

The District's combined net assets increased by 20.63%, or \$1,454,663, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$228,350, or 24.87% over the prior year. The increase in restricted net assets is primarily attributable to the increase in fund balance of the Capital Projects Fund.

Unrestricted net assets – are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$852,620, or 116.19%. This increase in unrestricted net assets was primarily a result of the District increase in the revenue.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to the year ended June 30, 2007.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 642,729	623,918	253,626	275,131	896,355	899,049	-0.30%
Operating grants and contributions and restricted interest	1,540,855	895,803	123,553	129,115	1,664,408	1,024,918	62.39%
General revenues:							
Property tax	2,870,968	2,779,196	0	0	2,870,968	2,779,196	3.30%
Local option sales and services tax	516,226	517,626	0	0	516,226	517,626	-0.27%
Unrestricted state grants	3,868,930	3,738,301	0	0	3,868,930	3,738,301	3.49%
Other	134,596	201,516	737	1,148	135,333	202,664	-33.22%
Total revenues	9,574,304	8,756,360	377,916	405,394	9,952,220	9,161,754	8.63%
Program expenses:							
Governmental activities:							
Instructional	5,149,073	4,855,019	0	0	5,149,073	4,855,019	6.06%
Support services	2,124,910	2,136,190	31,716	34,058	2,156,626	2,170,248	-0.63%
Non-instructional programs	0	0	378,306	399,577	378,306	399,577	-5.32%
Other expenditures	813,552	754,097	0	0	813,552	754,097	7.88%
Total expenses	8,087,535	7,745,306	410,022	433,635	8,497,557	8,178,941	3.90%
Changes in net assets	1,486,769	1,011,054	(32,106)	(28,241)	1,454,663	982,813	48.01%
Beginning net assets	6,866,810	5,855,756	184,819	213,060	7,051,629	6,068,816	16.19%
Ending net assets	\$ 8,353,579	6,866,810	152,713	184,819	8,506,292	7,051,629	20.63%

Property tax and unrestricted state grants account for 70.40% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.80% of the revenue from business type activities.

The District's total revenues were \$9,952,220 of which \$9,574,304 was for governmental activities and approximately \$377,916 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 8.63% increase in revenues and a 3.90% increase in expenses. The increase in revenues was due to increased local taxes, operating grants, contributions, and restricted interest and unrestricted state grant revenues the District received during fiscal 2008. The increase in expenses related to increased costs in negotiated salaries and benefits and programs funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$9,574,304 and expenses were \$8,087,535.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 5,149,073	4,855,019	6.06%	3,266,536	3,618,297	-9.72%
Support services	2,124,910	2,136,190	-0.53%	2,124,392	2,135,704	-0.53%
Other expenses	813,552	754,097	7.88%	513,023	471,584	8.79%
Totals	<u>\$ 8,087,535</u>	<u>7,745,306</u>	<u>4.42%</u>	<u>5,903,951</u>	<u>6,225,585</u>	<u>-5.17%</u>

- The cost financed by users of the District's programs was \$642,729.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,540,855.
- The net cost of governmental activities was financed with \$2,870,968 in property tax, \$516,226 in local option sales and services tax, \$3,868,930 in unrestricted state grants, \$34,876 in interest income, and other general revenues of \$99,720.

Business-Type Activities

Revenues of the District's business-type activities were \$377,916 and expenses were \$410,022. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Interstate 35 Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$5,603,864, above last year's ending fund balances of \$1,739,560.

Governmental Fund Highlights

- The District's improved General Fund financial position from \$719,866 to a balance of \$1,555,415 is the product of many factors:
 - Increase in state grants during the year resulted in an increase in revenues.
 - The increase in revenues was more than the increase in expenditures resulting in a net increase of \$835,549.
- The District's Special Revenue, Physical Plant and Equipment Levy Fund improved to a balance of \$42,022 at June 30, 2008 as compared to a balance of \$11,011 at June 30, 2007. The increase was due to the increase in local revenues.
- The District's Capital Projects Fund increase to \$3,455,031 at June 30, 2008 as compared to \$627,093 at June 30, 2007. The increase in the Capital Funds Fund balance was due to the revenue bonds and capital loan notes that the District sold on May 1, 2008 for the expansion of the current school.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$184,819 at June 30, 2007 to \$152,713 at June 30, 2008, representing a decrease of 17.37%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$263,351 more than budgeted revenues, a variance of 2.74%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. Expenditures in the other expenditures function exceeded the amounts budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$10,053,387, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$408,117.

The original cost of the District's capital assets was \$16,139,820. Governmental funds account for \$15,775,122 with the remainder of \$364,698 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$291,046 at June 30, 2008, compared to a zero balance, reported at June 30, 2007. This increase was a result of construction of the school expansion.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 601,200	401,200	0	0	601,200	401,200	33.27%
Construction in progress	291,046	0	0	0	291,046	0	100.00%
Buildings	8,424,476	8,659,679	0	0	8,424,476	8,659,679	-2.79%
Land improvements	210,199	223,871	0	0	210,199	223,871	-6.50%
Machinery and equipment	430,817	334,344	95,649	110,647	526,466	444,991	15.48%
Total	\$ 9,957,738	9,619,094	95,649	110,647	10,053,387	9,729,741	3.22%

Long-Term Debt

At June 30, 2008, the District had \$7,232,890 in general obligation and other long-term debt outstanding. This represents an increase of 61.99% over last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$3,945,000 at June 30, 2008.

In May 2008, the District's issued \$1,345,000 in local option sales and services tax revenue bonds for the expansion project for the school.

The District in May 2008, issued \$1,850,000 in capital loan notes for the same project.

The District had total outstanding Early Retirement payable from the Special Revenue – Management Fund of \$80,174 at June 30, 2008.

The District had total outstanding Compensated Absences payable from the General Fund of \$12,716 at June 30, 2008.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	June 30,		Change
	2008	2007	2007-08
General Obligation Bonds	\$ 3,945,000	4,330,000	-8.89%
Revenue Bonds	1,345,000	0	100.00%
Capital Loan Notes	1,850,000	0	100.00%
Early Retirement	80,174	119,788	-33.07%
Compensated Absences	12,716	15,211	-16.40%
	<u>\$ 7,232,890</u>	<u>4,464,999</u>	<u>61.99%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lisa Brown, Board Secretary, Interstate 35 Community School District, P.O. Box 79, Truro, Iowa, 50257.

BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:	\$ 5,768,917	67,303	5,836,220
Receivables:			
Local tax:			
Delinquent	54,678	0	54,678
Succeeding year	3,147,322	0	3,147,322
Income surtax	60,473	0	60,473
Accounts	17,708	696	18,404
Due from other governments	594,862	0	594,862
Inventories	0	6,930	6,930
Capital assets, net of accumulated depreciation (Note 5)	9,957,738	95,649	10,053,387
TOTAL ASSETS	19,601,698	170,578	19,772,276
LIABILITIES			
Accounts payable	168,582	0	168,582
Salaries and benefits payable	660,728	13,503	674,231
Interest payable	35,606	0	35,606
Deferred revenue:			
Succeeding year property tax	3,147,322	0	3,147,322
Other	2,991	0	2,991
Unearned revenue	0	4,362	4,362
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	400,000	0	400,000
Capital loan notes payable	155,000	0	155,000
Early retirement payable	55,014	0	55,014
Compensated absences payable	12,716	0	12,716
Portion due after one year:			
General obligation bonds payable	3,545,000	0	3,545,000
Revenue bonds payable	1,345,000	0	1,345,000
Capital loan notes payable	1,695,000	0	1,695,000
Early retirement payable	25,160	0	25,160
TOTAL LIABILITIES	11,248,119	17,865	11,265,984
NET ASSETS			
Invested in capital assets, net of related debt	5,677,785	95,649	5,773,434
Restricted for:			
Talented and gifted	17,296	0	17,296
Beginning teacher mentoring	623	0	623
Salary improvement program	2,153	0	2,153
Market factor	6,006	0	6,006
Professional development	6,736	0	6,736
Market factor incentives	5,378	0	5,378
Management levy	154,026	0	154,026
Physical plant and equipment levy	42,022	0	42,022
Capital projects	594,984	0	594,984
Debt service	224,729	0	224,729
Other special revenue purposes	92,467	0	92,467
Unrestricted	1,529,374	57,064	1,586,438
TOTAL NET ASSETS	\$ 8,353,579	152,713	8,506,292

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular instruction	\$ 3,214,950	312,415	724,645	(2,177,890)	0	(2,177,890)
Special instruction	1,190,515	42,683	494,538	(653,294)	0	(653,294)
Other instruction	743,608	287,113	21,143	(435,352)	0	(435,352)
	5,149,073	642,211	1,240,326	(3,266,536)	0	(3,266,536)
Support services:						
Student services	133,351	0	0	(133,351)	0	(133,351)
Instructional staff services	80,836	0	0	(80,836)	0	(80,836)
Administration services	797,272	0	0	(797,272)	0	(797,272)
Operation and maintenance						
of plant services	648,602	0	0	(648,602)	0	(648,602)
Transportation services	464,849	518	0	(464,331)	0	(464,331)
	2,124,910	518	0	(2,124,392)	0	(2,124,392)
Other expenditures:						
Facilities acquisitions	56,440	0	0	(56,440)	0	(56,440)
Long-term debt interest	193,448	0	0	(193,448)	0	(193,448)
AEA flowthrough	300,529	0	300,529	0	0	0
Depreciation (unallocated)*	263,135	0	0	(263,135)	0	(263,135)
	813,552	0	300,529	(513,023)	0	(513,023)
Total governmental activities	8,087,535	642,729	1,540,855	(5,903,951)	0	(5,903,951)
Business-Type activities:						
Support services:						
Administration services	31,716	0	0	0	(31,716)	(31,716)
Non-instructional programs:						
Nutrition services	378,306	253,626	123,553	0	(1,127)	(1,127)
Total business-type activities	410,022	253,626	123,553	0	(32,843)	(32,843)
Total	\$ 8,497,557	896,355	1,664,408	(5,903,951)	(32,843)	(5,936,794)
General Revenues:						
Property tax for:						
General purposes				\$ 2,216,180	0	2,216,180
Capital outlay				52,052	0	52,052
Debt service				542,263	0	542,263
Income surtax				60,473	0	60,473
Local option sales and services tax				516,226	0	516,226
Unrestricted state grants				3,868,930	0	3,868,930
Unrestricted investment earnings				34,876	737	35,613
Other				99,720	0	99,720
Total general revenues				7,390,720	737	7,391,457
Changes in net assets				1,486,769	(32,106)	1,454,663
Net assets beginning of year				6,866,810	184,819	7,051,629
Net assets end of year				\$ 8,353,579	152,713	8,506,292

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 1,941,740	31,759	3,253,140	542,278	5,768,917
Receivables:					
Local tax:					
Delinquent	39,235	1,013	0	14,430	54,678
Succeeding year	2,116,953	284,084	0	746,285	3,147,322
Income surtax	60,473	0	0	0	60,473
Accounts	8,458	9,250	0	0	17,708
Due from other governments	358,205	0	236,657	0	594,862
TOTAL ASSETS	\$ 4,525,064	326,106	3,489,797	1,302,993	9,643,960
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 128,504	0	34,766	5,312	168,582
Salaries and benefits payable	660,728	0	0	0	660,728
Deferred revenue:					
Succeeding year property tax	2,116,953	284,084	0	746,285	3,147,322
Other	2,991	0	0	0	2,991
Income surtax	60,473	0	0	0	60,473
Total liabilities	2,969,649	284,084	34,766	751,597	4,040,096
Fund balances:					
Reserved for:					
Capital facility construction	0	0	2,860,047	0	2,860,047
Debt service	0	0	0	224,729	224,729
Talented and gifted	17,296	0	0	0	17,296
Beginning teacher mentoring	623	0	0	0	623
Salary improvement program	2,153	0	0	0	2,153
Market factor	6,006	0	0	0	6,006
Professional development	6,736	0	0	0	6,736
Market factor incentives	5,378	0	0	0	5,378
Unreserved	1,517,223	42,022	594,984	326,667	2,480,896
Total fund balances	1,555,415	42,022	3,455,031	551,396	5,603,864
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,525,064	326,106	3,489,797	1,302,993	9,643,960

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2008

Total fund balances of governmental funds (page 15)	\$ 5,603,864
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	9,957,738
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	60,473
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(35,606)
Long-term liabilities, including general obligation bonds, revenue bonds, captial loan notes payable, early retirement and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(7,232,890)</u>
Net assets of governmental activities (page 13)	<u><u>\$ 8,353,579</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 2,016,716	52,052	516,226	741,727	3,326,721
Tuition	355,098	0	0	0	355,098
Other	192,029	9,250	19,728	222,363	443,370
Intermediate sources	573	0	0	100	673
State sources	4,751,746	40	0	573	4,752,359
Federal sources	635,610	0	0	0	635,610
Total revenues	7,951,772	61,342	535,954	964,763	9,513,831
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	3,232,597	0	0	32,071	3,264,668
Special instruction	1,190,396	0	0	0	1,190,396
Other instruction	538,019	0	0	218,297	756,316
	4,961,012	0	0	250,368	5,211,380
Support services:					
Student services	133,351	0	0	0	133,351
Instructional staff services	77,103	0	0	2,816	79,919
Administration services	706,399	0	0	132,560	838,959
Operation and maintenance of plant services	433,456	6,000	205,127	0	644,583
Transportation services	507,750	0	0	0	507,750
	1,858,059	6,000	205,127	135,376	2,204,562
Other expenditures:					
Facilities acquisitions	0	24,421	512,904	0	537,325
Long-term debt:					
Principal	0	0	0	385,000	385,000
Interest	0	0	0	158,623	158,623
AEA flowthrough	300,529	0	0	0	300,529
	300,529	24,421	512,904	543,623	1,381,477
Total expenditures	7,119,600	30,421	718,031	929,367	8,797,419
Excess(Deficiency)in revenues Over(under) expenditures	832,172	30,921	(182,077)	35,396	716,412
OTHER FINANCING SOURCES (USES):					
Issuance of capital loan notes	0	1,850,000	0	0	1,850,000
Issuance of revenue bonds	0	0	1,345,000	0	1,345,000
Premium on the issuance of bonds	0	0	2,169	0	2,169
Discount on financing	0	(13,875)	(15,619)	0	(29,494)
Accrued interest on bonds	0	718	543	0	1,261
Cost of issuance of debt issued	0	(14,192)	(10,229)	0	(24,421)
Transfers in	0	0	1,822,651	134,500	1,957,151
Transfers out	0	(1,822,651)	(134,500)	0	(1,957,151)
Proceeds from the disposal of assets	3,377	0	0	0	3,377
Total other financing sources(uses)	3,377	0	3,010,015	134,500	3,147,892
Net change in fund balance	835,549	30,921	2,827,938	169,896	3,864,304
Fund balance beginning of year	719,866	11,101	627,093	381,500	1,739,560
Fund balance end of year	\$ 1,555,415	42,022	3,455,031	551,396	5,603,864

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds (page 17) \$ 3,864,304

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense and capital outlay expenditures in the current year are as follows:

Expenditures for capital assets	\$ 720,045	
Depreciation expense	<u>(381,401)</u>	338,644

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments and issuances are as follows:

Issued	\$ (3,195,000)	
Repaid	<u>385,000</u>	(2,810,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(8,761)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	\$ 39,614	
Compensated absences	<u>2,495</u>	42,109

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.

60,473

Changes in net assets of governmental activities (page 14) \$ 1,486,769

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 67,303
Receivables:	
Accounts	696
Inventories	6,930
Capital assets, net of accumulated depreciation (Note 5)	<u>95,649</u>
TOTAL ASSETS	<u>170,578</u>
LIABILITIES	
Salaries and benefits payable	13,503
Unearned revenues	<u>4,362</u>
TOTAL LIABILITIES	<u>17,865</u>
NET ASSETS	
Invested in capital assets	95,649
Unrestricted	<u>57,064</u>
TOTAL NET ASSETS	<u><u>\$ 152,713</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 253,626
OPERATING EXPENSES:	
Support services:	
Administration services:	
Salaries	31,716
Non-instructional programs:	
Food service operations:	
Salaries	107,711
Benefits	60,056
Services	902
Supplies	181,201
Depreciation	26,716
Other	1,720
Total non-instructional programs	378,306
TOTAL OPERATING EXPENSES	410,022
OPERATING LOSS	(156,396)
NON-OPERATING REVENUES:	
State sources	4,289
Federal sources	119,264
Interest income	737
TOTAL NON-OPERATING REVENUES	124,290
Change in net assets	(32,106)
Net assets beginning of year	184,819
Net assets end of year	\$ 152,713

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 254,537
Cash payments to employees for services	(197,350)
Cash payments to suppliers for goods or services	(167,788)
Net cash used in operating activities	<u>(110,601)</u>
Cash flows from non-capital financing activities:	
State grants received	4,289
Federal grants received	100,728
Net cash provided by non-capital financing activities	<u>105,017</u>
Cash flows from capital financing activities:	
Purchase of assets	<u>(11,718)</u>
Cash flows from investing activities:	
Interest on investments	<u>737</u>
Net decrease in cash and cash equivalents	(16,565)
Cash and cash equivalents at beginning of year	<u>83,868</u>
Cash and cash equivalents at end of year	<u>\$ 67,303</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (156,396)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	18,536
Depreciation	26,716
Increase in accounts receivable	(696)
Increase in inventories	(2,501)
Increase in salaries and benefits payable	2,133
Increase in unearned revenue	1,607
Net cash used in operating activities	<u>\$ (110,601)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 67,303</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received
Federal commodities valued at \$18,536.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2008

(1) **Summary of Significant Accounting Policies**

The Interstate 35 Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education and regular pre-kindergarten. The geographic area served includes the City of Truro, New Virginia and St. Charles, Iowa, and the predominate agricultural territory in Madison, Clarke and Warren Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Interstate 35 Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Interstate 35 Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Madison, Clarke and Warren Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation plus the unspent bond proceeds and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Special Revenue - Physical Plant and Equipment Levy (PPEL) Fund is used to account for resources used in building improvements and equipment purchases.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses

generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating

revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax

receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances;

certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 432,967

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) Iowa School Cash Anticipation Program (ISCAP)

The District participated in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. As of June 30, 2008, the District was no longer participating in ISCAP.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity in the General Fund for the year ended June 30, 2008 was noted.

(4) Transfers

The detail of transfers at June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
	Special Revenue -	
	Physical Plant and	
Capital Projects	Equipment Levy	\$ 1,822,651
Debt Service	Capital Projects	134,500
Total		\$ 1,957,151

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

The Special Revenue, Physical Plant and Equipment Levy Fund (PPEL) is transferring the Capital Loan Note proceeds to the Capital Projects Fund.

The Capital Projects Fund is transferring funds to the Debt Service Fund for the Debt Service Reserve Fund required by the covenants of the Revenue Bond Statement.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 401,200	200,000	0	601,200
Construction in progress	0	291,046	0	291,046
Total capital assets not being depreciated	401,200	491,046	0	892,246
Capital assets being depreciated:				
Buildings	12,113,589	7,059	0	12,120,648
Land improvements	530,498	7,201	0	537,699
Machinery and equipment	2,073,020	214,739	63,230	2,224,529
Total capital assets being depreciated	14,717,107	228,999	63,230	14,882,876
Less accumulated depreciation for:				
Buildings	3,453,910	242,262	0	3,696,172
Land improvements	306,627	20,873	0	327,500
Machinery and equipment	1,738,676	118,266	63,230	1,793,712
Total accumulated depreciation	5,499,213	381,401	63,230	5,817,384
Total capital assets being depreciated, net	9,217,894	(152,402)	0	9,065,492
Governmental activities capital assets, net	\$ 9,619,094	338,644	0	9,957,738
Business-type activities:				
Machinery and equipment	\$ 352,980	11,718	0	364,698
Less accumulated depreciation	242,333	26,716	0	269,049
Business-type activities capital assets, net	\$ 110,647	(14,998)	0	95,649

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$	30,007
Special		119
Other		20,065

Support services:

Instructional staff	917
Administration	422
Operation and maintenance of plant	4,019
Transportation	62,717
Unallocated depreciation	263,135

Total governmental activities depreciation expense \$ 381,401

Business-type activities:

Food services	<u>\$ 26,716</u>
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(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 4,330,000	0	385,000	3,945,000	400,000
Revenue Bonds	0	1,345,000	0	1,345,000	0
Capital Loan Note	0	1,850,000	0	1,850,000	155,000
Early Retirement	119,788	35,398	75,012	80,174	55,014
Compensated Absences	15,211	12,716	15,211	12,716	12,716
	<u>\$ 4,464,999</u>	<u>3,243,114</u>	<u>475,223</u>	<u>7,232,890</u>	<u>622,730</u>

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of December 1, 2002			
	Interest Rates	Principal	Interest	Total
2009	3.20-3.25 %	\$ 400,000	145,785	545,785
2010	3.20-3.45	410,000	132,935	542,935
2011	3.45-3.65	425,000	118,867	543,867
2012	3.65-3.70	440,000	103,474	543,474
2013	3.70-3.85	460,000	87,062	547,062
2014-2017	3.85-4.30	1,810,000	159,239	1,969,239
Total		<u>\$ 3,945,000</u>	<u>747,362</u>	<u>4,692,362</u>

Revenue Bonds

Details of the District's local optional sales and services tax revenue bonded indebtedness, as June 30, 2008, are as follows:

Year Ending June 30,	Bond issue of May 1, 2008			
	Interest Rates	Principal	Interest	Total
2009	4.50 % \$	0	40,350	40,350
2010	4.50	195,000	56,138	251,138
2011	4.50	210,000	47,025	257,025
2012	4.50	220,000	37,350	257,350
2013	4.50	230,000	27,225	257,225
2014	4.50	240,000	16,650	256,650
2015	4.50	250,000	5,625	255,625
Total		\$ 1,345,000	230,363	1,575,363

The District has pledged future local option sales and services tax revenues to repay the \$1,345,000 bonds issued on May 1, 2008. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District and are payable through 2014. The bonds are not a general obligation of the District. However, the debt is subject to the constitution debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 51 percent of the local option sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$1,575,363. For the current year, no principal or interest was paid on the bonds and total local option sales and services tax revenues were \$516,266.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$134,500 of the proceeds from the issuance of the revenue bonds shall be deposited to a Reserve Account to be used solely for the purpose of paying principal and interest on the bonds, if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the local option sales and services tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interests requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Capital Loan Notes

During the year ended June 30, 2008, the District issued \$1,850,000 in Capital Loan Notes, which are payable from the Special Revenue, Physical Plant and Equipment Levy. Details of the District's June 30, 2008 capital loan notes indebtedness are as follows:

Year Ending June 30,	Capital Loans Note of May 1, 2008				
	Interest Rates		Principal	Interest	Total
2009	2.50	% \$	155,000	64,600	219,600
2010	2.70		165,000	60,726	225,726
2011	3.00		170,000	56,270	226,270
2012	3.20		175,000	51,170	226,170
2013	3.50		180,000	45,570	225,570
2014-2018	3.70-4.10		1,005,000	122,744	1,127,744
Total		\$	1,850,000	401,080	2,251,080

Early Retirement

The District offers a voluntary early retirement plan to its certified and non-certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement cash incentive for each eligible employee is equal to 1% of the previous year contract times each year of employment. The District also pays \$25 for each unused sick day. The retiree also receives a health insurance incentive for a period of up to three years, but before the retiree reaches age sixty-five. Early retirement benefits paid during the year ended June 30, 2008, totaled \$75,012. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$235,940, \$204,521, and \$199,523, respectively, equal to the required contributions for each year.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), and Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2008 were \$125,453.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$300,529 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Construction Commitments

The District has entered into a contract totaling \$2,804,500 for the expansion of the school. As of June 30, 2008, costs \$291,406, had been incurred against the contract. The balance of \$2,513,094 remaining at June 30, 2008, will be paid as work on the project progresses.

(11) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. Expenditures in the other expenditures function exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental	Proprietary		Budgeted Amounts		Final to
	Funds	Fund	Total	Original	Final	Actual
	Actual	Actual	Actual			Variance
Revenues:						
Local sources	\$ 4,125,189	254,363	4,379,552	4,021,397	4,021,397	358,155
Intermediate sources	673	0	673	1,100	1,100	(427)
State sources	4,752,359	4,289	4,756,648	5,312,399	5,312,399	(555,751)
Federal sources	635,610	119,264	754,874	293,500	293,500	461,374
Total revenues	9,513,831	377,916	9,891,747	9,628,396	9,628,396	263,351
Expenditures:						
Instruction	5,211,380	0	5,211,380	6,335,557	6,335,557	1,124,177
Support services	2,204,562	31,716	2,236,278	2,870,440	2,870,440	634,162
Non-instructional programs	0	378,306	378,306	500,000	500,000	121,694
Other expenditures	1,381,477	0	1,381,477	1,167,575	1,167,575	(213,902)
Total expenditures	8,797,419	410,022	9,207,441	10,873,572	10,873,572	1,666,131
Excess(deficiency) of revenues over(under) expenditures	716,412	(32,106)	684,306	(1,245,176)	(1,245,176)	1,929,482
Other financing sources, net	3,147,892	0	3,147,892	0	0	3,147,892
Excess(deficiency) of revenues and other financing sources over(under) expenditures	3,864,304	(32,106)	3,832,198	(1,245,176)	(1,245,176)	5,077,374
Balance beginning of year	1,739,560	184,819	1,924,379	1,010,632	1,010,632	913,747
Balance end of year	\$ 5,603,864	152,713	5,756,577	(234,544)	(234,544)	5,991,121

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2008

	Special Revenue Funds				Total
	Manage- ment Levy	Student Activity	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS					
Cash and pooled investments	\$ 230,320	97,779	328,099	214,179	542,278
Receivables:					
Property tax:					
Delinquent	3,880	0	3,880	10,550	14,430
Succeeding year property tax	200,000	0	200,000	546,285	746,285
TOTAL ASSETS	\$ 434,200	97,779	531,979	771,014	1,302,993
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 0	5,312	5,312	0	5,312
Deferred revenue:					
Succeeding year property tax	200,000	0	200,000	546,285	746,285
	200,000	5,312	205,312	546,285	751,597
Fund balances:					
Reserved for Debt Service	0	0	0	224,729	224,729
Unreserved, undesignated	234,200	92,467	326,667	0	326,667
	234,200	92,467	326,667	224,729	551,396
TOTAL LIABILITIES AND FUND BALANCES	\$ 434,200	97,779	531,979	771,014	1,302,993

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008

	Special Revenue Funds				Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Total Special Revenue Funds	Debt Service	
REVENUES:					
Local sources:					
Local tax	\$ 199,464	0	199,464	542,263	741,727
Other	7,555	214,779	222,334	29	222,363
State sources	154	100	254	419	673
TOTAL REVENUES	207,173	214,879	422,052	542,711	964,763
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	32,071	0	32,071	0	32,071
Other instruction	0	218,297	218,297	0	218,297
Support services:					
Instructional staff services	0	2,816	2,816	0	2,816
Administration	132,560	0	132,560	0	132,560
Other expenditures:					
Long-term debt:					
Principal	0	0	0	385,000	385,000
Interest	0	0	0	158,623	158,623
TOTAL EXPENDITURES	164,631	221,113	385,744	543,623	929,367
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	42,542	(6,234)	36,308	(912)	35,396
OTHER FINANCING SOURCES:					
Transfers in	0	0	0	134,500	134,500
NET CHANGE IN FUND BALANCE	42,542	(6,234)	36,308	133,588	169,896
FUND BALANCE BEGINNING OF YEAR	191,658	98,701	290,359	91,141	381,500
FUND BALANCE END OF YEAR	\$ 234,200	92,467	326,667	224,729	551,396

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Speech	\$ 491	0	290	201
HS Vocal	1,866	1,376	1,314	1,928
HS Band	1,452	1,256	1,183	1,525
Co-ed athletic gates	5,324	21,334	21,994	4,664
Cross Country	339	1,863	2,202	0
Golf	(192)	2,882	1,995	695
HS Cheerleaders	1,648	4,230	4,305	1,573
Dance Team	4,085	7,610	7,644	4,051
Boys Basketball	583	3,468	2,890	1,161
Football	(8,326)	7,596	7,669	(8,399)
Baseball	(1,274)	6,360	3,504	1,582
Baseball Fundraising	1,637	0	1,637	0
Boys Track	1,292	1,485	1,188	1,589
Wrestling	(2,786)	4,082	2,650	(1,354)
Girls Basketball	480	2,044	1,236	1,288
Girls Basketball Fundraising	592	0	592	0
Volleyball	889	3,602	2,967	1,524
Softball	671	5,004	4,880	795
Girls Track	2,757	3,187	5,255	689
HS General Athletics	7,346	5,681	8,307	4,720
JH Athletics	664	7,016	4,726	2,954
Knowledge Bowl	0	276	276	0
Booster Club	13,241	45,759	49,907	9,093
AED Grant	279	0	0	279
Athletic Complex	1,499	0	850	649
Interest	0	152	0	152
Uniform Fund	3,888	0	3,322	566
TAG Activity Fund Balance	785	0	58	727
Honor Society	913	648	704	857
HS Student Council	5,510	4,858	5,813	4,555
FFA	2,640	9,881	8,570	3,951
FCCLA	485	0	0	485
Art Club	12	0	0	12
HS Book Club	242	318	96	464
Senior Breakfast	313	0	79	234
Band Entry Fees	79	0	79	0
Middle School Band	1,902	150	550	1,502
Vocal Entry Fees	326	0	0	326
7th and 8th Vocal	806	1,078	467	1,417
Elem Vocal	169	170	0	339
Class of 2005	540	0	540	0
Class of 2007	331	0	331	0
Class of 2008	934	1,729	2,152	511
Class of 2009	1,430	1,250	2,148	532
Class of 2010	0	2,304	225	2,079
Class of 2011	0	440	0	440
Class of 2012	0	100	0	100
High School Fundraising	1,546	853	751	1,648
Beep Club	2,564	12,242	10,313	4,493
Scholarship Memorial	0	100	100	0
Unreserved-Fund Balance Preschool	1,278	904	0	2,182
Elementary Classes	18,277	20,449	25,979	12,747
EL/MS Fundraising	257	4,812	4,812	257
Middle School Classes	12,713	6,346	7,037	12,022
JH Student Council	6,204	9,984	7,526	8,662
	<u>\$ 98,701</u>	<u>214,879</u>	<u>221,113</u>	<u>92,467</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

Modified Accrual Basis					
Years Ended June 30,					
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 3,326,721	3,296,822	3,033,229	2,961,634	2,503,938
Tuition	355,098	322,459	283,603	230,110	188,971
Other	443,370	500,273	458,751	415,118	345,482
Intermediate sources	673	9,691	3,663	180	860
State sources	4,752,359	4,453,988	3,711,595	3,534,845	3,343,852
Federal sources	635,610	169,225	172,332	172,013	125,386
Total	\$ 9,513,831	8,752,458	7,663,173	7,313,900	6,508,489
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 3,264,668	2,929,529	2,593,367	2,566,745	2,453,170
Special instruction	1,190,396	1,271,565	879,648	1,054,796	843,303
Other instruction	756,316	673,801	677,564	552,769	539,517
Support services:					
Student services	133,351	124,138	170,046	177,068	174,280
Instructional staff services	79,919	55,002	48,296	37,662	73,135
Administration services	838,959	860,317	872,124	786,083	670,130
Operation and maintenance of plant services	644,583	639,872	658,572	676,195	553,359
Transportation services	507,750	465,040	447,807	484,531	458,525
Other expenditures:					
Facilities acquisitions	537,325	51,501	52,552	80,903	510
Long-term debt:					
Principal	385,000	375,000	365,000	355,000	350,000
Interest and fiscal charges	158,623	169,947	180,522	189,391	196,648
AEA flow-through	300,529	282,513	233,707	222,803	216,931
Total	\$ 8,797,419	7,898,225	7,179,205	7,183,946	6,529,508

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 08	14,494
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 08	104,770*
			<u>119,264</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3119-G FY07	11,080
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3119-G FY08	61,749
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3119-GC	14,111
			<u>86,940</u>
SPECIAL EDUCATION - GRANTS TO STATES(PART B)			
	84.027	FY 07	180,295
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 08	268,747
			<u>449,042</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 08	<u>2,293</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)			
	84.298	FY 08	<u>2,507</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 08	<u>24,445</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)			
	84.369	FY 07	2,975
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 08	3,169
			<u>6,144</u>

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT(continued):			
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 08	<u>45,497</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 08	<u>2,245</u>
TOTAL			<u>\$ 738,377</u>

* Includes \$18,536 of non-cash awards.

Basis of Presentation - The Schedule of Expenditures includes the federal grant activity of the Interstate 35 Community School District and is presented in the conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Interstate 35 Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Interstate 35 Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 23, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Interstate 35 Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Interstate 35 Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Interstate 35 Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Interstate 35 Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Interstate 35 Community School District's financial statements that is more than inconsequential will not be prevented or detected by Interstate 35 Community School District's internal control. We consider the deficiencies in internal control described in Part II of the Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Interstate 35 Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-08 is a material weakness.

Compliance and Other Matters

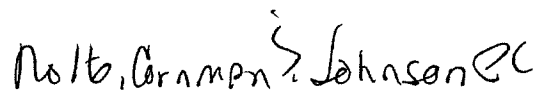
As part of obtaining reasonable assurance about whether Interstate 35 Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Interstate 35 Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Interstate 35 Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Interstate 35 Community School District and other parties to whom Interstate 35 Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Interstate 35 Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 23, 2009

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Interstate 35 Community School District

Compliance

We have audited the compliance of Interstate 35 Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Interstate 35 Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Interstate 35 Community School District's management. Our responsibility is to express an opinion on Interstate 35 Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Interstate 35 Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Interstate 35 Community School District's compliance with those requirements.

In our opinion, Interstate 35 Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Interstate 35 Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Interstate 35 Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Interstate 35 Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, which results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a material weakness.

Interstate 35 Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Interstate 35 Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Interstate 35 Community School District and other parties to whom Interstate 35 Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

March 23, 2009

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Individual
 - CFDA Number 84.027 – Special Education - Grants to the States(Part B)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Interstate 35 Community School District did not qualify as a low-risk auditee.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement them as soon as possible.

II-B-08 Reliable Financial Statements - Iowa School Districts are required to record the financial records on a GAAP Basis of Accounting. The financial records are normally converted at year end, after a year of cash based records. The recognition of receivables, payables, inventory, long-term debt recognition and depreciation of capital assets are all pieces which the accounting personnel is expected to be completing. The individuals performing the accounting function needs to be well trained in all areas to be effective in completing the Certified Annual Report. The Iowa Association of School Business Officials provides training to its members as does the Department of Education and Software Unlimited. This training helps in providing instruction as well as promotes networking of other accounting personnel. There were no end of year GAAP adjustments in the Nutrition Fund made for changes in inventories, capital assets, student lunch account balances or commodities received. Also, the issuances of the Capital Loan Notes and the Revenue Bonds were not recorded properly in the Capital Projects Fund and the Special Revenue, Physical Plant and Equipment Fund.

Recommendation - The maintenance of reliable accounting records has and continues to be important in every district. The necessity of the numerous adjustments for the financial statements may indicate that additional training is necessary for the accounting personnel. The District should consider sending their accounting staff to end-of-year training in an effort to provide more reliable financial statements.

The District should review their procedures and implement new policies or make changes to existing policies on the proper procedure of recording revenue bond and capital loan notes revenue into the correct accounts. The District should review journal entries to be made for recording Capital Loan Notes and Revenue Bonds that are available on the Iowa Department of Education website.

Response - We will review our procedures and make the necessary changes to comply with the recommendation.

Conclusion - Response accepted.

II-C-08 Fixed Assets - A record of fixed asset acquisitions and disbursements are kept, however these changes are not kept up to date.

Recommendation - Fixed asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the amount of fixed assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The District should have a complete list of additions, deletions, and current assets.

Response - We will investigate ways to keep the fixed asset inventory to date.

Conclusion - Response accepted.

II-D-08 Checks Outstanding - We noted during our audit that the District had checks included in the activity bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be reissued, voided, or submitted to the State Treasurer as unclaimed property. Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st.

Response - We will review procedures and make the necessary changes to comply with the recommendation.

Conclusion - Response accepted.

II-E-08 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

We also noted during our audit that the quarterly reports for the Drug Free Program are not being filed timely. As a result, subsequent funding was not received.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

The district should monitor timelines for grants to ensure that quarterly reports are filed timely and therefore, grant revenues are received for the programs.

Response - We will review our procedures and make the necessary changes to comply with the recommendation.

Conclusion - Response accepted.

II-F-08 Purchase Orders - We noted during our audit that District does use purchase orders in the purchase process, however, purchase orders are either completed after the product is ordered or completed after the products have been received.

Recommendation - The advantage of using a purchase order system is that the approvals of the items being purchased are noted prior to the ordering of the items. In addition, when the items are approved and the purchase order is properly generated, it also, reflects on the financial records as an outstanding order, which represents the amount as an

obligation against the budget. When monitoring the actual expenses, it can be helpful to know the outstanding orders which will be subsequently paid, therefore, allowing the person who approves the purchase orders, the insight to know, if there is still available funding to make the purchase.

Although, Districts are not required to a purchase order system, the benefits to financial management make the system, desirable. The District's current purchase order system should be reviewed and the necessary changes made so that all disbursements are approved by the appropriate administrator, before the ordering of the supplies takes place.

Response - We will review the purchase order process with our employees and reiterate the importance of having purchase orders done properly and approved by the proper authority before purchases are made.

Conclusion - Response accepted.

II-G-08 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. Per Chapter 9 of the LEA Financial Accounting Manual, "The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8)." Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

Currently, donations from Target are recorded in the Elementary account in the Student Activity Fund. Target donations are considered an undesignated donation, therefore, they should be receipted into the General Fund for use as determined by the Board of Directors. The designation should be noted annually in the District's board minutes.

Donations given to a school should be expended according to the donor's request. According to information contained on the website for Box Tops, the donation can be used for items such as books, computers, or playground equipment. Currently, the District records the Box Top donations in the Student Activity Fund. Since the items listed for purchase with Box Tops donations are more instructional in nature, the most logical place to record these donations in the General Fund.

Lifetouch commissions were being receipted into the Activity Fund. The General Fund is the only allowable fund for commissions revenue recognition. In the future, the Lifetouch picture commissions should be receipted into the General Fund.

The Student Activity Fund also includes Elementary, Middle School classes, and Beep Club accounts. These accounts appear to instructional in nature. The District should review the appropriateness of these accounts within the Student Activity Fund. The District should transfer the remaining account balances to the General Fund, if it does not the Student Activity Fund guidelines mentioned above.

The District should review the properness of receipts and expenditures that are recorded in the Student Activity Fund. The District should also review procedures that are in place in regards to the Activity Fund and follow the suggested recommendations to gain compliance and better internal controls.

Response - We will review our procedures and make the necessary changes to comply with the recommendation.

Conclusion - Response accepted.

- II-H-08 Timely Deposits - We noted during our audit that money collected in the Student Activity fund was not taken to the bank for deposit until several days later.

Recommendation - All receipts should be deposited when received. The district should review procedures with staff to ensure that the deposits are made timely.

Response - We will review our procedures and make the necessary changes to comply with the recommendation.

Conclusion - Response accepted.

- II-I-08 Board Policies - We noted during our audit the District has not implemented a capital asset policy. The District should implement a policy that addresses the dollar capitalization threshold and years to depreciate assets over. The policy should also address that the District should keep track of assets over \$500 for insurance purposes.

We also noted that the District hasn't implemented a cell phone policy. The policy should address the issues and requirements for employees who will utilize district owned cell phones or who receive a dollar allowance for personal cell phones.

Recommendation - The District should review their procedures in place and update or implement the necessary policies.

Response - We will the necessary steps to rectify the board policy issues.

Conclusion - Response accepted.

- II-J-08 Supporting Documents for Meal Reimbursement - It was noted during the audit, instances of a meal reimbursements which lacked a detailed receipt for supporting documentation.

Recommendation - The District has policy number 401.7 in place for meals, hotels, parking, and other out of District expenditures reimbursements, which states that the staff need to provide the detailed receipts for purchases made. The District should review their procedures in place with personnel to ensure that the proper detailed documentation is furnished for supporting documentation. The District should require additional approval of expense, if proper documentation is not available.

Response - We will takes to steps to rectify this situation.

Conclusion - Response accepted.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 84.027 - Special Education - Grants to the States(Part B)

Federal Award Year: 2007 - 2008

U.S. Department of Education

Passed through the Iowa Department of Education

III-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement them as soon as possible.

Conclusion - Response accepted.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTION COSTS
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting:

IV-A-08 Certified Budget - District expenditures for the year ended June 30, 2008 exceeded the amount budgeted in the other expenditures function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will monitor the budget and amend it in the future as necessary.

Conclusion - Response accepted.

IV-B-08 Questionable Disbursements - We noted during our audit that the District wrote checks for purchase of gift cards. The gift cards were given as rewards to students and to mentors of new students. Gift cards for these purposes do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - We will review our procedures and make the necessary changes to comply with the recommendations.

Conclusion - Response accepted.

IV-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-08 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Connie Kephart, Bus Driver Spouse owns Kephart Construction	Purchased Services	\$10,866
Bill Maske, Superintendent Spouse does computer repair	Purchased Services	\$3,000

In accordance with Attorney General's opinion dated November 9, 1976, the above transactions with the family members of the employees do not appear to represent a conflict of interest.

IV-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will provide the minutes within the time period required; however, we are unable to control publishing dates.

Conclusion - Response acknowledged. The District can provide proof of publication by providing the date they sent the minutes or any other board action requiring publication to the newspaper.

IV-G-08 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-J-08 Financial Condition - The District has two deficit account balances in the Special Revenue, Student Activity Fund totaling \$9,573.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response - We will review our procedures and make efforts to eliminate the deficits in these accounts.

Conclusion - Response accepted.

IV-K-08 Local Option Sales and Service Tax Expenditures - According to Chapter 298.3 of the Code of Iowa, PPEL monies may be used for a purchase of a single unit of equipment exceeding \$500 per unit. According to the District's revenue purpose statement, local option sales and service tax money can be spent for PPEL type expenditures, thus falling within the same \$500 per unit of equipment restriction. We noted during our audit that the prior year corrective transfer from the General Fund to the Capital Projects Fund for unallowable expenditures totaling \$14,006.74 was not completed. In the current year, we noted table and chair purchase totaling \$4,865.05. These expenditures, which are less than \$500 per single unit, are inappropriate from the Capital Projects Fund.

Recommendation - The District should make a corrective transfer of \$18,871.79 from the General Fund to the Capital Projects Fund for the unallowable cost of equipment.

Response - In the future, will monitor expenditures from this fund to make certain that expenditures are allowable according to Chapter 298.3 of the Code of Iowa.

Conclusion - Response acknowledged. The corrective transfer from the General Fund to the Capital Projects Fund for \$18,871.79 needs to be completed.

IV-L-08 Signing of Officiating Contracts - We noted during our audit that the Board President was not signing athletic officiating contracts for the District. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District to comply with Chapter 291.1 of the Code of Iowa.

Response - We will review our procedures and make the necessary changes to comply with the recommendation.

Conclusion - Response accepted.